



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

June 8, 2010

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Hazleton, Iowa.

The City's receipts totaled \$705,911 for the year ended June 30, 2009. The receipts included \$131,144 in property tax, \$270,021 from charges for service, \$89,315 from operating grants, contributions and restricted interest, \$82,450 from capital grants, contributions and restricted interest, \$68,544 from local option sales tax, \$19,553 from unrestricted interest on investments and \$44,884 from other general receipts.

Disbursements for the year totaled \$525,706, and included \$136,989 for public works, \$70,655 for general government and \$48,269 for public safety. Also, disbursements for business type activities totaled \$260,359.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/index.html>.

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CITY OF HAZLETON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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City of Hazleton

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------|----------------|---------------------|
| Roger Carson | Mayor | Jan 2010 |
| Lynn Vargason | Mayor Pro tem | Jan 2012 |
| Mike Foland | Council Member | Jan 2010 |
| Joe Kout | Council Member | Jan 2010 |
| Elizabeth Miller | Council Member | Jan 2010 |
| Mitch Penhollow | Council Member | Jan 2012 |
| Lynne Draper | City Clerk | Resigned Aug 2009 |
| Patricia Arthaud | City Treasurer | Indefinite |
| Carter Stevens | City Attorney | Indefinite |

City of Hazelton



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Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hazleton, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hazleton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

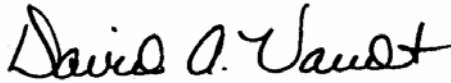
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hazleton as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

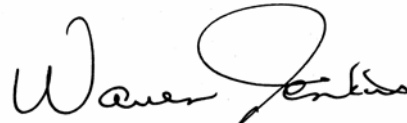
In accordance with Government Auditing Standards, we have also issued our report dated May 10, 2010 on our consideration of the City of Hazleton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 26 through 28 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hazleton's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2008, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 10, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hazleton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2009 FINANCIAL HIGHLIGHTS

- The City's total cash basis net assets increased 17.7%, or approximately \$180,000, from June 30, 2008 to June 30, 2009.
- The assets of the governmental activities increased approximately \$149,000 due, in part, to decreased spending for capital improvements, equipment and the Highway 150 shoulder paving project.
- The assets of the business type activities increased approximately \$31,000 due, in part, to an increase in water rates over the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the City sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue Funds, such as Road Use Tax. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

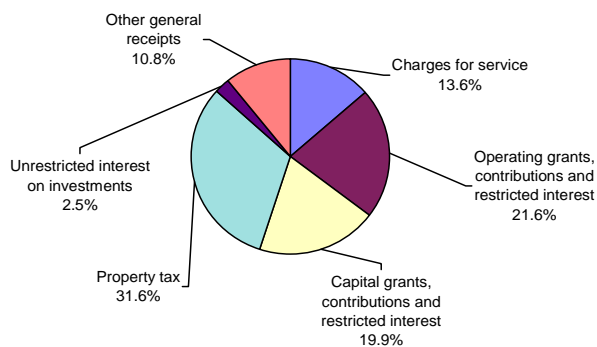
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

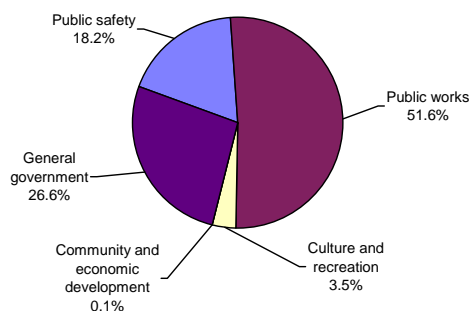
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$65,459 to approximately \$214,328. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

| Changes in Cash Basis Net Assets of Governmental Activities | |
|---|-----------------------------|
| | Year ended June 30, 2009 |
| Receipts: | |
| Program receipts: | |
| Charges for service | \$ 56,242 |
| Operating grants, contributions and restricted interest | 89,315 |
| Capital grants, contributions and restricted interest | 82,450 |
| General receipts: | |
| Property tax | 131,144 |
| Unrestricted interest on investments | 10,181 |
| Other general receipts | 44,884 |
| Total receipts | 414,216 |
| Disbursements: | |
| Public safety | 48,269 |
| Public works | 136,989 |
| Culture and recreation | 9,258 |
| Community and economic development | 176 |
| General government | 70,655 |
| Total disbursements | 265,347 |
| Change in cash basis net assets | 148,869 |
| Cash basis net assets beginning of year | 65,459 |
| Cash basis net assets end of year | \$ 214,328 |

Receipts by Source



Disbursements by Function



| Changes in Cash Basis Net Assets of Business Type Activities | |
|--|-----------------------------|
| | Year ended June 30, 2009 |
| Receipts: | |
| Program receipts: | |
| Charges for service: | |
| Water | \$ 110,618 |
| Sewer | 103,161 |
| General receipts: | |
| Intergovernmental | 68,544 |
| Interest on investments | 9,372 |
| Total receipts | <u>291,695</u> |
| Disbursements: | |
| Water | 133,031 |
| Sewer | 127,328 |
| Total disbursements | <u>260,359</u> |
| Change in cash basis net assets | 31,336 |
| Cash basis net assets beginning of year | <u>951,192</u> |
| Cash basis net assets end of year | <u>\$ 982,528</u> |

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hazleton completed the year, its governmental funds reported a combined fund balance of \$214,328, an increase of \$148,869 above last year's total of \$65,459. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$54,147 over the prior year to \$113,586. The increase was due to less money spent in the current year on equipment. In the previous year, a new emergency vehicle and playground equipment were purchased.
- The Special Revenue, Road Use Tax Fund cash balance was \$(19,724) at the end of the fiscal year, an increase of \$5,075 over the previous year.
- The Special Revenue, Disaster Grant Fund cash balance was \$66,181 at the end of the fiscal year. The fund was set up in the current fiscal year to account for a community disaster grant received from the Federal Emergency Management Agency.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$14,387 to \$531,785 during the fiscal year. The increase was partly due to an increase in water rates.
- The Sewer Fund cash balance increased \$16,949 to \$450,743 during the fiscal year. The increase was partly due to an increase in sewer rates.

BUDGETARY HIGHLIGHTS

The City's receipts were \$131,026 more than budgeted, primarily due to the receipt of grants and insurance proceeds from tornado damage which occurred in the previous fiscal year.

Actual disbursements for the business type activities, culture and recreation and public safety functions were \$33,383, \$16,617 and \$8,864, respectively, less than budgeted, primarily due to the City over estimating budget needs for equipment and capital improvements.

The City exceeded the amount budgeted in the general government function by \$15,321 for the year ended June 30, 2009 due to under estimating needs.

DEBT ADMINISTRATION

At June 30, 2009, the City had \$508,870 in notes and other long-term debt outstanding, compared to \$583,680 at June 30, 2008.

| | Outstanding Debt at Year-End | |
|------------------------|------------------------------|----------------|
| | June 30, | |
| | 2009 | 2008 |
| Revenue notes | \$ 360,000 | 390,000 |
| Bank loan - Watertower | 148,870 | 193,680 |
| Total | <u>\$ 508,870</u> | <u>583,680</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hazleton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2010 budget, tax rates and fees charged for various City activities.

The budget for the general government function increased from \$55,334 to \$73,527 to reflect estimated expenses.

The City has added no major new programs or initiatives to the fiscal year 2010 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$6,000 by the close of fiscal year 2010.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mike Vandenburg, City Clerk, P.O. Box 500, Hazleton, Iowa 50641.

City of Hazelton

Basic Financial Statements

City of Hazleton

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2009

| | Disbursements | Program Receipts | | |
|--|---------------|---------------------|---|--|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants Contributions and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 48,269 | 672 | - | - |
| Public works | 136,989 | 50,320 | 78,821 | - |
| Culture and recreation | 9,258 | 3,945 | 10,494 | - |
| Community and economic development | 176 | - | - | - |
| General government | 70,655 | 1,305 | - | 82,450 |
| Total governmental activities | 265,347 | 56,242 | 89,315 | 82,450 |
| Business type activities: | | | | |
| Water | 133,031 | 110,618 | - | - |
| Sewer | 127,328 | 103,161 | - | - |
| Total business type activities | 260,359 | 213,779 | - | - |
| Total | \$ 525,706 | 270,021 | 89,315 | 82,450 |
| General Receipts: | | | | |
| Property tax levied for general purposes | | | | |
| Local option sales tax | | | | |
| Unrestricted interest on investments | | | | |
| Miscellaneous | | | | |
| Total general receipts | | | | |
| Change in cash basis net assets | | | | |
| Cash basis net assets beginning of year | | | | |
| Cash basis net assets end of year | | | | |
| Cash Basis Net Assets | | | | |
| Restricted: | | | | |
| Disaster grant | | | | |
| Debt service | | | | |
| Watertower | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| Total cash basis net assets | | | | |

See notes to financial statements.

| Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|--|-----------------------------|-----------|
| Governmental Activities | Business Type Activities | Total |
| (47,597) | - | (47,597) |
| (7,848) | - | (7,848) |
| 5,181 | - | 5,181 |
| (176) | - | (176) |
| 13,100 | - | 13,100 |
| (37,340) | - | (37,340) |
| - | (22,413) | (22,413) |
| - | (24,167) | (24,167) |
| - | (46,580) | (46,580) |
| (37,340) | (46,580) | (83,920) |
| 131,144 | - | 131,144 |
| - | 68,544 | 68,544 |
| 10,181 | 9,372 | 19,553 |
| 44,884 | - | 44,884 |
| 186,209 | 77,916 | 264,125 |
| 148,869 | 31,336 | 180,205 |
| 65,459 | 951,192 | 1,016,651 |
| \$ 214,328 | 982,528 | 1,196,856 |
| \$ 66,181 | - | 66,181 |
| - | 49,387 | 49,387 |
| - | 172,744 | 172,744 |
| 54,285 | - | 54,285 |
| 93,862 | 760,397 | 854,259 |
| \$ 214,328 | 982,528 | 1,196,856 |

City of Hazleton

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2009

| | | Special Revenue | |
|---------------------------------------|------------|-----------------|----------|
| | | Road | Disaster |
| | General | Use Tax | Grant |
| Receipts: | | | |
| Property tax | \$ 103,260 | - | - |
| Licenses and permits | 1,305 | - | - |
| Use of money and property | 14,057 | - | - |
| Intergovernmental | 16,269 | 78,821 | 66,181 |
| Charges for service | 50,320 | - | - |
| Miscellaneous | 45,632 | - | - |
| Total receipts | 230,843 | 78,821 | 66,181 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 43,583 | - | - |
| Public works | 53,519 | 73,746 | - |
| Culture and recreation | 9,258 | - | - |
| Community and economic development | 176 | - | - |
| General government | 70,160 | - | - |
| Total disbursements | 176,696 | 73,746 | - |
| Excess of receipts over disbursements | 54,147 | 5,075 | 66,181 |
| Cash balances beginning of year | 59,439 | (24,799) | - |
| Cash balances end of year | \$ 113,586 | (19,724) | 66,181 |
| Cash Basis Fund Balances | | | |
| Unreserved: | | | |
| General fund | \$ 113,586 | - | - |
| Special revenue funds | - | (19,724) | 66,181 |
| Total cash basis fund balances | \$ 113,586 | (19,724) | 66,181 |

See notes to financial statements.

| Nonmajor | Total |
|----------|---------|
| 27,884 | 131,144 |
| - | 1,305 |
| 68 | 14,125 |
| - | 161,271 |
| - | 50,320 |
| 10,419 | 56,051 |
| 38,371 | 414,216 |

| | |
|--------|---------|
| 4,686 | 48,269 |
| 9,724 | 136,989 |
| - | 9,258 |
| - | 176 |
| 495 | 70,655 |
| 14,905 | 265,347 |

| | |
|--------|---------|
| 23,466 | 148,869 |
| 30,819 | 65,459 |
| 54,285 | 214,328 |

| | |
|--------|---------|
| - | 113,586 |
| 54,285 | 100,742 |
| 54,285 | 214,328 |

City of Hazleton

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2009

| | Enterprise | | |
|--|------------|----------|----------|
| | Water | Sewer | Total |
| Operating receipts: | | | |
| Charges for service | \$ 110,618 | 103,161 | 213,779 |
| Operating disbursements: | | | |
| Business type activities | 92,161 | 71,059 | 163,220 |
| Excess of operating receipts over operating disbursements | 18,457 | 32,102 | 50,559 |
| Non-operating receipts (disbursements): | | | |
| Local option sales tax | 34,272 | 34,272 | 68,544 |
| Interest on investments | 2,528 | 6,844 | 9,372 |
| Debt service | (40,870) | (56,269) | (97,139) |
| Net non-operating receipts (disbursements) | (4,070) | (15,153) | (19,223) |
| Excess of receipts over disbursements | 14,387 | 16,949 | 31,336 |
| Cash balances beginning of year | 517,398 | 433,794 | 951,192 |
| Cash balances end of year | \$ 531,785 | 450,743 | 982,528 |
| Cash Basis Fund Balances | | | |
| Reserved for: | | | |
| Debt service | \$ - | 49,387 | 49,387 |
| Watertower | 172,744 | - | 172,744 |
| Unreserved | 359,041 | 401,356 | 760,397 |
| Total cash basis fund balances | \$ 531,785 | 450,743 | 982,528 |

See notes to financial statements.

City of Hazleton
Notes to Financial Statements
June 30, 2009

(1) Summary of Significant Accounting Policies

The City of Hazleton is a political subdivision of the State of Iowa located in Buchanan County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hazleton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Hazleton (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit

The Hazleton Volunteer Fire Department has been incorporated under the provisions of the Iowa Nonprofit Corporation Act, Chapter 504A of the Code of Iowa, for the purpose of aiding in the extinguishing of fires and performing such other duties as set forth by the Fire Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Hazleton Volunteer Fire Department meets the definition of a component unit which should be blended. The financial activity for the account held by the component unit has been blended as a Special Revenue Fund of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Buchanan County Assessor's Conference Board, Buchanan County Emergency Management Commission and Buchanan County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Special Revenue, Road Use Tax Fund is used to account for road construction and maintenance.

The Special Revenue, Disaster Grant Fund is used to account for the disaster grant received during fiscal year 2009.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the general government function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds Payable

Annual debt service requirements to maturity for revenue bonds are as follows:

| Year Ending June 30, | Sewer Revenue Bonds | | | | | |
|----------------------------|---------------------|----------|--------------|----------|-----------|----------|
| | Series 1998A | | Series 1998B | | Total | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2010 | \$ 10,000 | 3,300 | 21,000 | 7,500 | 31,000 | 10,800 |
| 2011 | 10,000 | 3,000 | 22,000 | 6,870 | 32,000 | 9,870 |
| 2012 | 10,000 | 2,700 | 22,000 | 6,210 | 32,000 | 8,910 |
| 2013 | 10,000 | 2,400 | 23,000 | 5,550 | 33,000 | 7,950 |
| 2014 | 10,000 | 2,100 | 24,000 | 4,860 | 34,000 | 6,960 |
| 2015-2019 | 60,000 | 5,700 | 138,000 | 12,810 | 198,000 | 18,510 |
| Total | \$ 110,000 | 19,200 | 250,000 | 43,800 | 360,000 | 63,000 |

Sewer Revenue Bonds

On October 19, 1998, the City entered into agreements with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$618,000 of sewer revenue bonds with 4.19% per annum interest. The interest rate was subsequently reduced to 3% on December 1, 2008. The agreement requires the City to annually pay a .05% servicing fee on the outstanding principal balance. The bonds were issued December 1, 1998 pursuant to the provisions of Sections 384.24A and 384.83 of the Code of Iowa to construct improvements and extensions to a municipal sanitary sewer system.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$618,000 of sewer revenue bonds issued in December 1998. Proceeds from the notes provided financing for the construction of improvements to the sanitary sewer system. The bonds are payable solely from sewer customer net receipts and are payable through 2019. Annual principal and interest payments on the bonds are expected to require 137% percent of net receipts. The total principal and interest remaining to be paid on the notes is \$423,000. For the current year, principal and interest paid and total customer net receipts were \$44,021 and \$32,102, respectively.

The resolution providing for the issuance of the revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account for the purpose of making the bond principal and interest payments when due.

Bank Loans

On October 14, 2003, the City entered into an agreement to borrow \$62,420 to purchase a dump truck. The remaining balance of \$11,593 was paid during the year ended June 30, 2009.

On August 3, 2006, the City entered into an agreement to borrow \$215,000 to finance the construction of a new water tower. The loan will be repaid by the City in six equal annual installments of \$40,870, including interest at 3.95% per annum, beginning July 15, 2007. The outstanding balance at June 30, 2009 was \$148,870.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2009 was \$6,143, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time hours payable to employees at June 30, 2009, primarily relating to the General Fund, is as follows:

| Type of Benefit | Amount |
|-------------------|-----------------|
| Vacation | \$ 1,500 |
| Compensatory time | <u>6,000</u> |
| Total | <u>\$ 7,500</u> |

These liabilities have been computed based on rates of pay in effect at June 30, 2009

(6) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Deficit Balance

The Special Revenue, Road Use Tax Fund had a deficit balance of \$19,724 at June 30, 2009. The deficit balance will be eliminated after the State's share of the Highway 150 shoulder paving project is received.

City of Hazelton

Required Supplementary Information

City of Hazleton

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2009

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds not Required to be Budgeted |
|---|---------------------------------|--------------------------------|---|
| Receipts: | | | |
| Property tax | \$ 131,144 | 68,544 | - |
| Licenses and permits | 1,305 | - | - |
| Use of money and property | 14,125 | 9,372 | 68 |
| Intergovernmental | 161,271 | - | - |
| Charges for service | 50,320 | 213,779 | - |
| Miscellaneous | 56,051 | - | 10,419 |
| Total receipts | 414,216 | 291,695 | 10,487 |
| Disbursements: | | | |
| Public safety | 48,269 | - | 4,686 |
| Public works | 136,989 | - | - |
| Culture and recreation | 9,258 | - | - |
| Community and economic development | 176 | - | - |
| General government | 70,655 | - | - |
| Business type activities | - | 260,359 | - |
| Total disbursements | 265,347 | 260,359 | 4,686 |
| Excess (deficiency) of receipts over (under) disbursements | 148,869 | 31,336 | 5,801 |
| Balances beginning of year | 65,459 | 951,192 | 3,735 |
| Balances end of year | \$ 214,328 | 982,528 | 9,536 |

See accompanying independent auditor's report.

| Total | Original and Final Budget | Variance |
|-----------|---------------------------------|----------|
| 199,688 | 190,408 | 9,280 |
| 1,305 | 300 | 1,005 |
| 23,429 | 19,750 | 3,679 |
| 161,271 | 84,940 | 76,331 |
| 264,099 | 263,500 | 599 |
| 45,632 | 5,500 | 40,132 |
| 695,424 | 564,398 | 131,026 |
| 43,583 | 52,447 | 8,864 |
| 136,989 | 140,391 | 3,402 |
| 9,258 | 25,875 | 16,617 |
| 176 | 200 | 24 |
| 70,655 | 55,334 | (15,321) |
| 260,359 | 293,742 | 33,383 |
| 521,020 | 567,989 | 46,969 |
| 174,404 | (3,591) | 177,995 |
| 1,012,916 | 959,715 | 53,201 |
| 1,187,320 | 956,124 | 231,196 |

City of Hazleton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2009, disbursements exceeded the amount budgeted in the general government function.

Other Supplementary Information

City of Hazelton

City of Hazleton

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2009

| | Special Revenue | | |
|---------------------------------------|-----------------|------------|--------|
| | Volunteer | | |
| | Employee | Fire | |
| | Benefits | Department | Total |
| Receipts: | | | |
| Property tax | \$ 27,884 | - | 27,884 |
| Use of money and property | - | 68 | 68 |
| Miscellaneous | - | 10,419 | 10,419 |
| Total receipts | 27,884 | 10,487 | 38,371 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | - | 4,686 | 4,686 |
| Public works | 9,724 | - | 9,724 |
| General government | 495 | - | 495 |
| Total disbursements | 10,219 | 4,686 | 14,905 |
| Excess of receipts over disbursements | 17,665 | 5,801 | 23,466 |
| Cash balances beginning of year | 27,084 | 3,735 | 30,819 |
| Cash balances end of year | \$ 44,749 | 9,536 | 54,285 |
| Cash Basis Fund Balances | | | |
| Unreserved: | | | |
| Special revenue funds | \$ 44,749 | 9,536 | 54,285 |

See accompanying independent auditor's report.

City of Hazleton
Schedule of Indebtedness
Year ended June 30, 2009

| Obligation | Date of Issue | Interest Rates | Amount Originally Issued |
|----------------------|------------------|-------------------|--------------------------------|
| Sewer revenue bonds: | | | |
| Series 1998A | Dec 1, 1998 * | 3.00% | \$ 190,000 |
| Series 1998B | Dec 1, 1998 * | 3.00 | 428,000 |
| Total | | | |
| Bank loans: | | | |
| Dump truck | Oct 14, 2003 | 3.75% | \$ 62,420 |
| Watertower | Aug 3, 2006 | 3.95 | 215,000 |
| Total | | | |

* The agreement also requires the City to annually pay a .05% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

| Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year | Interest Paid |
|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| 120,000 | - | 10,000 | 110,000 | 4,314 |
| 270,000 | - | 20,000 | 250,000 | 9,707 |
| \$ 390,000 | - | 30,000 | 360,000 | 14,021 |
| 11,593 | - | 11,593 | - | 461 |
| 182,087 | - | 33,217 | 148,870 | 7,653 |
| \$ 193,680 | - | 44,810 | 148,870 | 8,114 |

Schedule 3

City of Hazleton

Bond Maturities

June 30, 2009

| Year Ending June 30, | Sewer Revenue Bonds | | | | | Total |
|----------------------------|---------------------|------------|--------------------|------------|---------|-------|
| | Series A | | Series B | | | |
| | Issued Dec 1, 1998 | | Issued Dec 1, 1998 | | | |
| | Interest Rates | Amount | Interest Rates | Amount | | |
| 2010 | 3.00% | \$ 10,000 | 3.00% | \$ 21,000 | 31,000 | |
| 2011 | 3.00 | 10,000 | 3.00 | 22,000 | 32,000 | |
| 2012 | 3.00 | 10,000 | 3.00 | 22,000 | 32,000 | |
| 2013 | 3.00 | 10,000 | 3.00 | 23,000 | 33,000 | |
| 2014 | 3.00 | 10,000 | 3.00 | 24,000 | 34,000 | |
| 2015 | 3.00 | 10,000 | 3.00 | 25,000 | 35,000 | |
| 2016 | 3.00 | 11,000 | 3.00 | 26,000 | 37,000 | |
| 2017 | 3.00 | 12,000 | 3.00 | 28,000 | 40,000 | |
| 2018 | 3.00 | 13,000 | 3.00 | 29,000 | 42,000 | |
| 2019 | 3.00 | 14,000 | 3.00 | 30,000 | 44,000 | |
| Total | | \$ 110,000 | | \$ 250,000 | 360,000 | |

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

City of Hazelton



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Hazleton, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 10, 2010. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2008. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hazleton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Hazleton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hazleton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Hazleton's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Hazleton's financial statements that is more than inconsequential will not be prevented or detected by the City of Hazleton's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Hazleton's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (D) and (E) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hazleton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

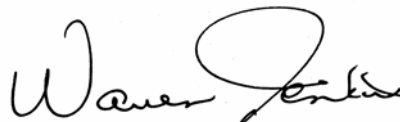
The City of Hazleton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Hazleton's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hazleton and other parties to whom the City of Hazleton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hazleton during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 10, 2010

City of Hazleton

Schedule of Findings

Year ended June 30, 2009

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas:
- (1) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
 - (2) Investments – detailed record keeping and reconciling earnings.
 - (3) Long-term debt – recording and reconciling.
 - (4) Receipts – collecting, depositing, journalizing and posting.
 - (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (6) Disbursements – purchasing, check signing, recording and reconciling.
 - (7) Payroll – preparing and distributing.
 - (8) Financial reporting – preparing, reconciling and distributing.
 - (9) Accounting system – performing all general accounting functions and having custody of City assets.
 - (10) Information system (computer usage) – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – We will utilize resources available to obtain the maximum internal control, including initials of reviewer. In addition, City Clerk has requested a Finance Committee consisting of two Council members to review all financials.

Conclusion – Response accepted.

City of Hazleton

Schedule of Findings

Year ended June 30, 2009

- (B) Information System – The following weaknesses in the City’s computer-based system were noted:

The City does not have written policies for:

- Password privacy and confidentiality.
- Requiring password changes because software does not require the user to change log-ins/passwords periodically.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items to improve the City’s control over its information system.

Response – The City will continue written policies addressing the above items to improve the City’s control over its information system.

Conclusion – Response accepted.

- (C) IPERS Withholdings and Additional Compensation – The City did not withhold IPERS on \$4,000 of insurance payments to an employee during the period from August 2008 to December 2008.

Recommendation – The City should contact the Iowa Public Employees Retirement System (IPERS) regarding the proper disposition of IPERS withholdings.

Response – The City contacted Iowa Public Employees Retirement System regarding the proper disposition of IPERS withholdings. The City will pay IPERS on the \$4,000 of insurance payments reimbursed to an employee.

Conclusion – Response accepted.

- (D) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council – designated independent person should review the reconciliations and monitor delinquencies.

Response – The City will consider linking utility information to financial information within the new system. In addition, the City Clerk has requested a Finance Committee consisting of two Council members to review utility billings, collections and delinquencies and initial monthly reports.

Conclusion – Response accepted.

City of Hazleton

Schedule of Findings

Year ended June 30, 2009

- (E) Insurance Reimbursements – In lieu of health insurance benefits, the City reimburses employees for health insurance and tax withholdings related to these cash reimbursements. The City’s policy, as documented in its Employee Handbook (policy), applicable to the year ended June 30, 2009 states, in part:

“Health insurance shall be secured by the employee. The City will pay insurance premiums up to the scheduled amount as set by the approved annual City Budget. Insurance benefits are available for full-time employees.”

During the year ended June 30, 2009 the City reimbursed employees the following amounts pursuant to this policy:

| Fund | Insurance | Payroll Withholdings | Total |
|------------------------------------|-----------|----------------------|--------|
| General | \$ - | 1,942 | 1,942 |
| Special Revenue, Employee Benefits | 8,391 | 860 | 9,251 |
| Enterprise, Water | 4,125 | - | 4,125 |
| Enterprise, Sewer | 4,106 | - | 4,106 |
| Total | \$ 16,622 | 2,802 | 19,424 |

The City budgeted \$19,000 and paid \$16,622 for insurance benefits and \$2,802 for payroll withholdings during the year ended June 30, 2009.

Chapter 384.6 of the Code of Iowa states, in part:

“A city may establish trust and agency funds (*now special revenue funds*) for the following purposes:

1. Accounting for pension and related employees benefit funds as provided by the city finance committee. A city may certify taxes to be levied for a trust and agency fund in the amount necessary to meet its obligations.”

Chapter 4 of the City Finance Committee (CFC) administrative rules, implementing Chapter 384.6 of the Code of Iowa, provides the definition of and allowable expenditures from the employee benefits levy. According to the CFC administrative rules, cash reimbursements are not an allowable expenditure from the employee benefits levy.

Subsequent to July 1, 2009, the City revised its Employee Handbook (policy) regarding insurance for City employees hired prior to July 1, 2009 and after July 1, 2009. There are certain differences for employees hired before and after July 1, 2009. Employees hired prior to July 1, 2009 were responsible for paying payroll tax related to the cash reimbursements. However, this provision was not included for employees hired after July 1, 2009. In a letter to the City dated July 9, 2009, the City Attorney recommended the City establish a cafeteria plan which, if properly structured, would allow City employees to avoid any tax consequences. However, the City did not appear to have a bonafide cafeteria plan meeting the requirements of Section 125 of the Internal Revenue Code (IRC).

City of Hazleton

Schedule of Findings

Year ended June 30, 2009

Also, according to the policy, regardless of the date hired, all employees must secure their own health insurance and provide proof of eligible reimbursement. Although the City had a folder for filing the required documentation, the folder was empty.

According to Article III, Section 31 of the Constitution of the State of Iowa, public funds may only be spent for the public benefit. We were unable to determine the propriety of the cash reimbursements for health insurance totaling \$16,622 due to the lack of documentation supporting these reimbursements. In addition, we were unable to determine the propriety of the cash reimbursements for payroll withholdings totaling \$2,802 to City employees, as noted, since this form of reimbursement was not included in the City policy and/or otherwise approved by the City Council.

Recommendation – The City should make corrective transfers from the General Fund to the Special Revenue, Employee Benefits Fund for the insurance reimbursements paid from the employee benefits levy. The corrective transfers should include \$8,391 for insurance reimbursements and \$860 for payroll withholdings paid during the year ended June 30, 2009, plus amounts, if any, paid after that date. In the future, the City should adhere to the CFC administrative rules in determining and approving payments from the employee benefits levy.

The City should review and revise its Employee Handbook (policy) to establish an IRC, Section 125 cafeteria plan or other allowable plan to provide or fund health insurance benefits or reimbursements to its employees, if desired. If the City approves an allowable plan, the City should ensure it complies with the requirements of the City policy and plan, including proper documentation, as applicable.

Although not required by City policy until July 1, 2009, supporting documentation should exist to substantiate the purpose and propriety of all disbursements of public funds. The City should consult legal counsel regarding this issue, including the propriety and disposition of the cash reimbursements to City employees.

Response – The City will make corrective transfers from the General Fund to the Special Revenue, Employee Benefits Fund for the insurance reimbursements paid from the employee benefits levy in the amount of \$9,251.

Conclusion – Response acknowledged. The City should also consult legal counsel. Restructuring the City's method of providing group health insurance benefits to employees has the potential to avoid the tax consequences of reimbursing employees for individual health insurance premiums.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Hazleton

Schedule of Findings

Year ended June 30, 2009

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2009 exceeded the amount budgeted in the general government function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

In addition, Chapter 384.16 states, in part, “The Council shall set a time and place for public hearing on the budget...and shall publish notice of the hearing not less than ten nor more than twenty days before the hearing.” The City published notice of the public hearing for the budget more than twenty days prior to the public hearing date.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the City should comply with the publication requirements included in Chapter 384.16 of the Code of Iowa

Response – The City will comply with Chapters 384.16 and 384.18 of the Code of Iowa.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|---|----------------------------|--------|
| Virginia Steil, Council Member, Husband owns Steil Welding | Welding and repair | \$ 339 |

In accordance with Chapter 362.5(11) of the Code of Iowa, these transactions do not appear to represent a conflict of interest since the total transactions were less than \$1,500 during the fiscal year.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

City of Hazleton

Schedule of Findings

Year ended June 30, 2009

- (6) Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

The Council went into closed session on October 26, 2009 and November 9, 2009. However, the minutes record did not document the roll call vote and the specific exemption under Chapter 21.5 of the Code of Iowa was not identified as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Although the Council approved annual salaries, the City did not publish annual salaries in accordance with Chapter 372.13 of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with Chapters 21 and 372.13 of the Code of Iowa.

Response – The City will comply with Chapter 21 of the Code of Iowa regarding closed sessions and Chapter 372.13 regarding publication of annual salaries.

Conclusion – Response accepted.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – No instances of non-compliance with the provisions of the revenue bond resolution were noted.
- (9) Utility Rates – Utility rates were not approved by ordinance as required by Chapter 384.84 of the Code of Iowa. Rates were established by ordinance in 2003 and increases were approved for the fiscal years ended June 30, 2005 to 2009 based on consumer price index reports.

Recommendation – The City should establish all utility rates by ordinance as required by Chapter 384.84 of the Code of Iowa, including required publications and hearings, as necessary. Also, for full disclosure, the ordinance should document the previous rate, the percentage increase and the new rate, not just the percentage increase.

Response – The City will establish all utility rates by ordinances as required by Chapter 384.84 of the Code of Iowa. In Resolution 09-11, the City Council set the CPI for fiscal year 2010 at 0%. The resolution did increase the fuel charge to \$1.63 for garbage and recycle services.

Conclusion – Response accepted.

City of Hazleton

Schedule of Findings

Year ended June 30, 2009

- (10) Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance of \$19,724 at June 30, 2009.

Recommendation – The City should continue to investigate alternatives to eliminate this deficit to return this fund to a sound financial condition.

Response – The deficit is due to a road project with half of the expense being paid by the State. When the State's share of the project is received, the deficit balance will be eliminated.

Conclusion – Response accepted.

City of Hazleton

Staff

This audit was performed by:

Deborah J. Moser, CPA, Manager
Aaron P. Wagner, CPA, Staff Auditor
Billie Jo Heth, Senior Auditor II
Christina M. Renze, CPA, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State